

RECORDATION NO. 21492 FILED

JUL 6 '98

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OF COUNSEL
URBAN A. LESTER

July 6, 1998

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a), are three (3) copies of a Loan and Security Agreement, dated as of July 1, 1998, a primary document as defined in the Board's Rules for the Recordation of Documents.

The names and addresses of the parties to the enclosed document are:

Borrower: Escanaba & Lake Superior Railroad Company
One Larkin Plaza
Wells, MI 49894

Secured Party: Deutsche Financial Services Corporation
2333 Waukegan Road
Bannockburn, IL 60015-0329

A description of the railroad equipment covered by the enclosed documents is:

attached as Exhibit A to the Agreement

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SURFACE TRANSPORTATION
BOARD

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Counterparts

Mr. Vernon A. Williams
July 6, 1998
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Also enclosed is a check in the amount of \$26.00 payable to the order of the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed documents to the undersigned.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Robert W. Alvord", with a long horizontal flourish extending to the right.

Robert W. Alvord

RWA/bg
Enclosures

JUL 6 '98

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LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT ("Agreement") dated as of the 15th day of July, 1998 is hereby entered into by and between Escanaba & Lake Superior Railroad Company, a Michigan corporation ("Borrower") and Deutsche Financial Services Corporation, a Nevada corporation ("Lender").

RECITALS

WHEREAS, Borrower has requested that Lender refinance a total of three hundred forty-five (345) used boxcars and flat cars, and nine (9) locomotives (together, the "Railroad Equipment") and that Lender finance an additional amount such that the total amount financed by Lender pursuant hereto shall be equal to but no more than seventy-eight per cent (78%) of the appraised fair market value of the Railroad Equipment (the "Maximum Advance Amount");

WHEREAS, subject to the terms and conditions set forth herein, Lender has agreed to provide the financing requested by Borrower up to an amount equaling the Maximum Advance Amount;

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements hereinafter contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

A. THE LOAN

A.1. Terms in the Recitals. Terms defined in the Recitals hereof shall have their respective meanings when used herein.

A.2. The Maximum Advance Amount. Subject to fulfillment of the conditions specified herein, Borrower agrees to borrow from Lender and Lender agrees to lend to Borrower, the Maximum Advance Amount; provided, however, that under no circumstances shall the Maximum Advance Amount exceed the following:

Seventy-eight per cent (78%) of the appraised fair market value of the Railroad Equipment, as determined by Norman Seip and Associates, or other appraiser acceptable to Lender.

A.3. Promissory Note for the Loan . On or before the date on which the Maximum Advance Amount is advanced by Lender to Borrower or to third parties as directed by Borrower (said advance to be hereinafter referred to as "the Loan"), in consideration for such advance, Borrower will deliver to Lender its Promissory Note (the "Promissory Note") for amount(s) actually advanced to, for, or on behalf of Borrower in connection with this transaction, which will be secured by, among other things, the Railroad Equipment, as provided under this Agreement. The Railroad Equipment is more fully described on Exhibit "A", attached hereto and made a part hereof. The term of the Promissory Note shall be eighty-four (84) months. The rate of interest and terms and conditions of the Promissory Note shall be as stated therein.

A.4. Conditions Precedent to Lender Making the Loan. Lender shall make the Loan to Borrower only in the event the following conditions are fulfilled to the satisfaction of Lender and its counsel:

(1) On or prior to the closing for the Loan (hereinafter, the "Loan Closing"), copies of the following documents shall have been delivered to each party hereto, with original fully executed counterparts delivered to Lender:

- (a) this Agreement;
- (b) the Promissory Note, in the form of Exhibit B, attached hereto;
- (c) a Pay Proceeds Letter, if applicable, directing the payment of proceeds of the Loan;
- (d) certified copies of the appropriate proceedings of the board of directors of Borrower with respect to this Agreement, the Promissory Notes, and the other instruments contemplated herein and therein and to the execution, delivery and performance thereof by the respective parties;
- (e) Certificate of Good Standing of the Borrower, issued by the respective Secretaries of State of Michigan and Wisconsin;
- (f) incumbency certificate of Borrower with respect to the duly elected officers authorized to execute documentation and take necessary actions in connection with the Loan, qualified and holding the offices indicated and including said specimen signatures of the officers so identified;
- (g) Closing Certificate of Borrower, in the form attached hereto as Exhibit C, certifying that the representations and warranties of Borrower contained herein and in any documents or certificates delivered pursuant hereto are true and correct on and as of the Loan Closing with the same effect as though made on and as of the Loan Closing, and that as of the Loan Closing there is no default by Borrower under any of its other obligations, or the occurrence of any event which, but for the lapse of time or the giving of notice, or both, would constitute such a default;
- (h) evidence of filing of this Agreement and such other documents as Lender in its sole but not unreasonable discretion may require with the Surface Transportation Board (the "STB") pursuant to provisions of the ICC Termination Act of 1995 (the "ITA"), and with the Registrar General of Canada (the "RGC"), pursuant to the Canada Transportation Act (the "CTA");
- (i) evidence satisfactory to Lender of Borrower's ownership of the Railroad Equipment and that Borrower has good and marketable title to the Railroad Equipment, and the lawful right to pledge a security interest in the same to Lender, free of all claims, liens, security interests and other encumbrances except Permitted Encumbrances (defined below);
- (j) evidence satisfactory to Lender that the Railroad Equipment are free and clear of any and all leases;

- (k) original copies of the appraisals of the Railroad Equipment;
- (l) the insurance certificate covering the Railroad Equipment in accordance with Section A.5.(18), below;
- (m) Opinion of Counsel to Borrower regarding, other matters, corporate good standing, requisite corporate power and authority, that the documents executed in connection with the loan constitute valid and binding obligations of the Borrower, in form and in substance satisfactory to Lender;
- (n) such Uniform Commercial Code financing statement(s) as may be required by Lender, together with the Uniform Commercial Code searches showing no prior interest of any party in the Railroad Equipment or in any lease or other proceeds thereof;
- (o) a copy of the most recent audited financial statements of the Borrower for the most recent fiscal year, certified by an officer of Borrower, and such other interim, unaudited financial statements and information regarding Borrower as may be requested by Lender;
- (p) a life insurance policy on John C. Larkin, showing Lender as sole beneficiary, with the amount of the policy sufficient to cover the principal of the loan and all precomputed interest;
- (q) payment of \$25,000.00 representing the balance of the \$30,000.00 Loan Fee agreed to by Borrower and Lender;
- (r) such other opinions, approvals, certificates, agreements or other documents as Lender may reasonably request; and
- (s) evidence satisfactory to Lender in its reasonable discretion of the manufacture date of the Railroad Equipment.

(2) Lender shall have received such evidence of fulfillment of the foregoing conditions of this Section A.4., including, without limitation, opinions of counsel or certificates of officers of Borrower, public officials and others, as Lender or its counsel may reasonably require to establish to its satisfaction the fulfillment of such conditions.

(3) Lender's obligation to make the advance hereunder (i) shall not be prohibited by any applicable law or governmental regulation, (ii) shall not subject Lender to any penalty, or in its reasonable judgment, other onerous conditions under or pursuant to any applicable law or governmental regulation, and (iii) shall be permitted by laws and regulations of the jurisdictions to which Lender is subject. If requested by Lender, Borrower shall have delivered to Lender factual certificates or other evidence reasonably available to Borrower, in form and substance satisfactory to Lender, to enable Lender to establish compliance with this condition, to the extent such compliance relates to the nature, condition, action or inaction of Borrower.

(4) For purposes of this Agreement, the term "Permitted Encumbrances" shall mean: (i) the security interest created by this Agreement; (ii) liens and taxes either not yet due or being contested in good faith and by appropriate proceedings diligently conducted so long as such proceedings shall stay the enforcement thereof and the sale or forfeiture of the item of Railroad Equipment or any part thereof or interest therein and so long as Borrower has provided Lender with a bond or other collateral security

satisfactory to Lender in an amount not less than the amount of the lien; and (iii) undetermined or inchoate materialmen's, mechanics', workmen's, repairmen's or employees' liens or other like liens arising in the ordinary course of business and securing obligations which are not delinquent or which shall have been bonded or the enforcement of which shall have been suspended.

A.5. Representations, Warranties and Covenants. Borrower hereby makes the following representations, warranties, and covenants, each of which is true and correct on the date hereof and will be true and correct on the Loan Closing, except as expressly may be provided otherwise hereunder, and each of which shall survive the Loan Closing.

(1) Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Michigan, has full power and authority to own its property and carry on its business as currently conducted and is duly qualified to do business in such other jurisdictions in which the failure to so qualify would have a material adverse effect upon the financial condition of Borrower.

(2) Borrower is conducting its business in such a manner as to comply with all applicable laws and regulations of the United States of America, the several states and the District of Columbia and any subdivision of any thereof, in Canada and the provinces thereof wherein Borrower is doing business and of all governmental agencies and authorities of any thereof having jurisdiction in the premises where the failure to so comply would have a material adverse effect on the business, present or prospective, or the operations, property, assets or condition, financial or otherwise, of Borrower.

(3) Borrower has the full power and authority to execute, deliver and perform this Agreement, all other documents referred to herein to which Borrower is a party, and the Promissory Note.

(4) This Agreement and all other documents referred to herein to which Borrower is a party have each been duly authorized, executed and delivered by Borrower and assuming due authorization, execution and delivery by the other parties thereto constitute the legal, valid and binding obligations of Borrower enforceable against it in accordance with their respective terms.

(5) The Promissory Note has been duly authorized by Borrower and, when executed and delivered by Borrower, shall constitute a legal, valid and binding obligation of Borrower enforceable against it in accordance with the terms thereof.

(6) No authorization or approval or other action by, and no notice with respect to filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by Borrower of this Agreement, the Promissory Note and all other documents referred to herein to which borrower is a party, except for the filing of this Agreement with the STB pursuant to the provisions of the ITA, with the RGC pursuant to the CTA and the filing of Uniform Commercial Code financing statements in the appropriate state and local offices in which such financing statements have been or shall be filed.

(7) Neither the execution, delivery or performance by Borrower of this Agreement, the Promissory Note and all other documents referred to herein to which Borrower is a party, nor compliance with the terms and provisions thereof, conflicts or will conflict with or will result in a breach or violation of any of the terms, conditions or provisions of any law, governmental rule or regulation or the charter documents, as amended, or by-laws, as amended, of Borrower or any order, writ, injunction or decree of any

court or governmental authority against Borrower or by which it or any of its properties is bound, or of any indenture, mortgage or contract or other agreement or instrument to which Borrower is a party or by which it or any of its properties is bound, or constitutes or will constitute a default hereunder or will result in the imposition of any lien not permitted hereby upon any of its properties.

(8) As of the Loan Closing, Borrower has good, and lawful title to the Railroad Equipment and the good and lawful right to pledge the same to Lender, free from all claims, liens, security interests and other encumbrances except for Permitted Encumbrances; upon filing of this Agreement with the STB and the RGC, and filing of applicable Uniform Commercial Code financing statements with the appropriate state and local filing offices, Lender will have a valid first priority, perfected lien on and first priority, perfected security interest in the Railroad Equipment and all leases, if any, and proceeds thereof superior to the rights of all third persons; and all of the Railroad Equipment are, or will be after modification, in good condition and repair and adequate for the uses to which they are being put, and in compliance with all laws and regulations as may be issued by any federal, state, or local governmental or private regulatory body.

(9) Neither Borrower nor anyone acting on its behalf, has directly or indirectly offered the Promissory Note, or similar securities relating to the Railroad Equipment, for sale to, or solicited any offer to acquire any of the same from, anyone other than Lender.

(10) The execution and delivery by Borrower of this Agreement and the Promissory Note will not involve any prohibited transaction within the meaning of ERISA or Section 4975 of the Internal Revenue Code of 1986.

(11) This Agreement will be, on or prior to the Loan Closing, duly filed with the STB pursuant to the provisions of the ITA, and with the RGC pursuant to the CTA.

(12) Except for the filings referred to in paragraphs (6), (8) and (11) hereof, as of the Loan Closing, there are no security agreements, financing statements or notices signed by Borrower on file in any appropriate public office naming Borrower as debtor and purporting to create or perfect a security interest in (a) the rentals, revenues and payments to be received by Borrower under any leases, if any, relating to such Railroad Equipment being financed on such date or (b) the Railroad Equipment being financed on such date, and no other filing, depositing or recordation is necessary (A) for the protection of the title of Borrower to the Railroad Equipment in any State of the United States of America or the District of Columbia or Canada or (B) for the perfection of the lien and security interest of Lender under this Agreement as against creditors of and purchasers from Borrower.

(13) All statements contained in any certificate, document, financial statement or other instrument delivered by or on behalf of Borrower pursuant to or in connection with this Agreement shall be deemed to constitute representations and warranties under Section A.5. of this Agreement. All of Borrower's representations and warranties under this Agreement shall survive the execution and delivery of the same, any investigation by Lender and the issuance of the Promissory Note.

(14) The audited annual financial statement of Borrower for each fiscal year will be certified as to completeness and accuracy by the chief executive officer or chief financial officer of Borrower and will be submitted to Lender not later than 120 days after the end of each of Borrower's fiscal years during the term of this Agreement and the Promissory Note, and direct quarterly financial statements

of Borrower, including a statement of cash flows, and a prior year comparative statement, also certified as to completeness and accuracy by one of the officers described above, will be submitted to Lender not later than 45 days after the end of each fiscal quarter of Borrower. Accountants responsible for producing the audited financial statements of Borrower shall be acceptable to Lender.

(15) The chief executive office of Borrower as of the date hereof is located at One Larkin Plaza, Wells, Michigan 49894.

(16) Borrower shall not sell, lease, assign or otherwise transfer or dispose of all or substantially all of its assets without Lender's prior written consent, which consent shall not be unreasonably withheld or delayed.

(17) The Quarterly Covenant Compliance Certificate, in the form of Exhibit D hereto, will be completed by Borrower and certified as to completeness and accuracy by the President or Chief Financial Officer of Borrower and will be submitted to Lender not later than 90 days after the end of each fiscal quarter of Borrower, and the Annual Covenant Compliance Certificate, in the form of Exhibit E hereto, will be completed by Borrower's independent auditors and certified as to completeness and accuracy by such auditors and will be submitted to Lender not later than 120 days after the end of each fiscal year of Borrower.

(18) Borrower agrees that during the term of the Promissory Note, or any extension thereof, it will provide and maintain insurance with respect to the Railroad Equipment, in such amounts and against such risks as are customary in the industry, but that such insurance shall nevertheless be satisfactory in all respects to Lender in its reasonably exercised discretion, including, but not limited to, with respect to prior notice of cancellation or material modification, with Lender named as sole loss payee as to any physical damage or casualty loss, and as additional insured with respect to liability. Liability insurance coverage will be for a minimum amount of three million (\$3,000,000.00) dollars. per occurrence.

(19) Borrower agrees that during the term of the Promissory Note, or any extension thereof, it will keep and maintain in good operating condition and repair and make all necessary replacements and renewals to the Railroad Equipment in accordance with industry standards so that the operating efficiency thereof shall at all times be maintained and preserved.

A.6. Borrower's Direct Liability. All obligations of Borrower under the Promissory Note are recourse obligations of Borrower and Borrower shall, therefore, be directly liable for any default under this Agreement and the Promissory Note and shall also be directly liable for any breach of any of its representations, warranties or covenants contained herein. Nothing contained herein shall, however, affect the right of the Lender to proceed directly against the Railroad Equipment for the full and complete payment of the indebtedness created hereby.

A.7. Mandatory Prepayments. In the event of a casualty loss with respect to any of the Railroad Equipment, there shall be due and payable hereunder and under the Promissory Note issued with respect to such item of the Railroad Equipment a mandatory prepayment of principal in an amount equal to the portion of the then outstanding principal balance of such Promissory Note represented by such item of Railroad Equipment together with all accrued and unpaid interest thereon, and upon such prepayment, a new amortization schedule shall be prepared by Lender to reflect such prepayment; provided, however, that if Borrower provides a suitable substitute to replace the item of Railroad Equipment that suffers a casualty

loss then, so long as there has been no Event of Default and the substitute item of Railroad Equipment is acceptable to Lender in its exercise of reasonable discretion, no prepayment shall be required and the parties shall execute such documents as are necessary to substitute the replacement items of Railroad Equipment for the destroyed Railroad Equipment under this Agreement and all related documents. A mandatory prepayment made under this Section A.7. will not be subject to the lost investment cost provision or the breakage fee provision set forth in the Promissory Note. For purposes of this section A.7., the term "casualty loss" shall mean damage to or destruction of an item of Railroad Equipment such that the cost of repair or restoration would exceed the fair market value of the restored or repaired item of Railroad Equipment.

A.8. Financial Covenants: Borrower agrees to the following financial covenants, each of which is true and correct as of the date hereof, and will be true and correct on the Loan Closing, except as may be expressly provided otherwise hereunder, and each of which shall survive the Loan Closing.

- (1) Borrower shall be limited in the amount of debt it may create, assume or otherwise incur, other than the debt created pursuant to this Agreement and the Promissory Note, and other than standard trade payables, to an amount which is not more than ten per cent (10%) in excess of audited prior year-end annual sales. This particular amount shall include operating leases. Notwithstanding this limitation, however, refinancing of existing debt shall be permitted.
- (2) Borrower's shall maintain a debt to equity ratio of 2:1 or less during the term of this Agreement and the Promissory Note. Notwithstanding the foregoing, however, Borrower's rehabilitation grants shall be included as part of equity, but related party receivables shall be excluded from equity.
- (3) Expenses and purchases of Borrower related to its tug/barge operations will be limited to \$100,000.00 per year, exclusive of existing debt service payments. Notwithstanding this limit however, net proceeds, if any, from the sale of any tugs or barges may be used in the tug/barge operations without being charged to this \$100,000.00 annual expense limit.
- (4) Any transfer of ownership of Borrower, by whatever means, except for the transfer of any stock which may occur by and between the Estate of Wade Larkin, John C. Larkin and Avis K. Larkin, shall not exceed 40% of current ownership, without the prior written consent of Lender. Any merger, acquisition of or sale of the assets and stock of Borrower, except as set forth above, is strictly prohibited without payment in full of all amounts owed to Lender pursuant to this Agreement and the Promissory Note, or any other obligation owed by Borrower to Lender.

B. SECURITY

B.1. Grant of Security Interest.

- (1) In order to secure the prompt payment of the principal and interest on the Promissory Note, (whether now or hereafter outstanding) and of all other moneys payable and to be payable

to Lender under this Agreement (collectively the "Indebtedness") and the timely and faithful performance and observance by Borrower of all of the agreements, covenants and provisions contained in this Agreement, and the Promissory Note, Borrower does hereby grant, convey, pledge, sell, mortgage, assign, transfer and set over a lien on and a security interest, unto Lender in (i) all of Borrower's right, title and interest including any interest hereafter acquired in every Item of Railroad Equipment identified on Exhibit "A" hereof, including any item of Railroad Equipment hereafter added to Exhibit "A" by way of supplement or amendment; (ii) Borrower's interest in accessions, accessories, equipment, appurtenances and replacement and added parts appertaining or attached to any of the Railroad Equipment owned or hereinafter acquired and all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any of said Railroad Equipment (the Railroad Equipment and all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any of said Railroad Equipment described in items (i) and (ii) above being hereinafter sometimes collectively referred to herein as the "Security Equipment"), together with all the rents, issues, income, profits, proceeds and avails therefrom and the proceeds thereof; (iii) all proceeds and all present and future evidences of rights to payment, (including, without limitation, insurance and indemnity payments) due or to become due to Borrower on account of the lease, sale, loss or other disposition of the Security Equipment; (iv) all leases, if any, all bills of sales or other similar documents, agreements and instruments relating to the Railroad Equipment (collectively, the "Documentary Security" or "Security Documentation"), together with all of Borrower's estate, right, title, interest, claims and demands in, to and under such documents, agreements and instruments including all extensions of any of the terms thereof, together with all rights, powers, privileges, options, and other benefits of Borrower including without limitation the right to receive notices, give consents, exercise any election or option, declare defaults and demand payments thereunder; and (v) all rent, damages and other moneys from time to time payable to or receivable by Borrower under the Documentary Security (such Security Equipment, Documentary Security, proceeds, rights, claims and causes of action described in items (i) through (v) above being herein sometimes collectively called the "Collateral"), to have and to hold all and every part of the Collateral unto Lender, and its successors and assigns, for its and their own use and benefit forever. Any and all leases of the Collateral with lease terms exceeding one year shall separately be assigned to Lender, upon such documentation as may reasonably be required by Lender, and with such assignments, or memoranda thereof, and/or UCC assignments being properly filed with the STB, the RGC or with such UCC filing offices as deemed necessary by Lender. At the request of Lender, Borrower shall also deliver to Lender all original copies of leases with lease terms exceeding one year.

(2) PROVIDED FURTHER, that it is expressly understood and agreed that the security interests hereby granted Lender are continuing security interests and will not be deemed to have been extinguished or satisfied until the Indebtedness is paid in full.

(3) PROVIDED FURTHER, and these presents are on the condition that, if Borrower, or its successors or assigns shall pay or cause to be paid to Lender all of the Indebtedness in accordance with its terms, as provided in this Agreement and the Promissory Note and shall well and faithfully perform and observe all of the agreements, covenants, and provisions hereof and thereof at the time and in the manner specified, then all rights herein assigned to Lender shall cease and terminate, all estate, right, title and interest of Lender in and to the Collateral shall revert to Borrower and this Agreement and rights and powers granted herein and hereby shall cease to be binding and shall be of no further force and effect.

(4) PROVIDED FURTHER, that, subject to the terms and provisions hereof and unless otherwise stated herein, Borrower may retain possession (other than the Documentary Security now or hereafter delivered by Borrower to Lender), use and enjoyment of the Collateral, and the exercise of Borrower's rights under the Documentary Security as long as no default shall have occurred and be continuing.

B.2. Lender as Agent Subject to Section B.1 hereof, Borrower hereby appoints Lender, and its successors and assigns, the true and lawful attorney of Borrower, irrevocably and with full power of substitution, in the name of Borrower or otherwise, to demand, receive, compromise, sue for, and give acquittance for, any and all rentals, profits, moneys and claims for money due and to become due arising out of this Article B, to endorse any checks or other instruments or order in connection therewith, to make all waivers and agreements and to file any claims or take any actions or institute any proceedings with respect thereto which Lender may deem reasonably necessary or advisable, exercisable at any time on or after the occurrence of any Event of Default set forth in Article C of this Agreement. Anything herein contained to the contrary notwithstanding, neither Lender nor its nominee or assignee shall have any obligation or liability by reason of or arising out of this Article B to make any inquiry as to the nature or sufficiency of, to present or file any claim with respect to, or to take any action to collect or enforce the payment of, any amount to which it may be entitled at any time or times by virtue of this Article B.

B.3. Perfecting Security. Borrower hereby represents, warrants and covenants that as of the Loan Closing (and after giving effect to any filings which Lender has advised Borrower it has previously made) all recordings and filings shall have been made which are necessary or appropriate to perfect Lender's interest in the Collateral, including, without limitation, recordings and filings with the STB, the RGC and the filings of such Uniform Commercial Code financing statements reasonably deemed necessary by Lender with the appropriate state and local offices, and that no other filings, recordings, depositing or giving of notice is necessary in order to protect the rights of Lender in and to the Collateral. Borrower shall, from time to time and at its own expense, promptly execute, acknowledge, witness, deliver and file and/or record, or procure the execution, acknowledgment, witnessing, delivery and filing and/or recordation of, such documents or instruments, and shall take or cause to be taken such other actions, as Lender may reasonably request for the perfection against Borrower and all third parties whomsoever of the security interest created by this Article B, of the rights and powers herein granted to Lender and or the continuation and protection thereof and promptly give to Lender evidence satisfactory to Lender of such delivery and filing and/or recording. Without limiting the generality of the foregoing, Borrower shall from time to time and at any time execute, acknowledge, witness and deliver such financing and continuation statements, notices and additional security agreements, make such notations on its records and take such other action as Lender may reasonably request for the purpose of so perfecting, maintaining and protecting such security interest of Lender, and shall cause this Agreement and each such financing and continuation statements, notices and additional security agreements to be filed or recorded in such manner and in such places as may be required by applicable law and as Lender may reasonably request for such purpose. Borrower hereby authorizes Lender to effect any filing or recording which Lender has requested pursuant to this Section B.3 without the signature of Borrower to the extent permitted by applicable law. The costs and expenses of Lender with respect to such actions shall be payable by Borrower on demand, as further outlined below.

B.4. After-Acquired Property. Any and all property described or referred to in Section B.1. hereof which is hereafter acquired shall, without any further conveyance, assignment or act to the on the part of Borrower or Lender, become and be subject security interest herein granted as fully and

completely as though specifically described herein. Borrower shall, at its expense, do, execute, acknowledge and deliver all and every further acts, deeds, conveyances, transfers and assurances necessary or proper for the perfection of the security interest being herein provided for in the Collateral, whether now owned or hereafter acquired. Notwithstanding the foregoing, such after acquired property shall not include any after acquired railcars, locomotives or other railroad rolling stock which is not explicitly contemplated as substituted collateral for any of the Railroad Equipment.

B.5. Usage. So long as no Default shall have occurred and be continuing, Borrower shall be entitled to the possession and use of each item of Railroad Equipment wholly within the continental United States and Canada in accordance with the terms of this Agreement.

B.6. Marking of Equipment. Borrower shall, at its expense, cause the Railroad Equipment to be kept numbered with the identifying road number set forth in Exhibit "A" hereto, or in the case of any item not there listed, such identifying number as shall be set forth in any amendment or supplement hereto extending this Agreement to cover such item, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of each item of Railroad Equipment, the words "Ownership Subject to a Security Agreement filed under the Surface Transportation Board", or other appropriate markings approved in writing by Lender, with appropriate changes thereof in order to protect Lender's security interest in the Railroad Equipment and its rights under this Agreement. Borrower shall, at its expense, replace promptly any such markings which may be removed, defaced, obliterated or destroyed and shall not change the number of any item of Railroad Equipment except in accordance with a statement of new number or numbers to be substituted therefor, which statement previously shall have been filed with Lender and filed, recorded and deposited by Borrower in all public offices where this Agreement shall have been filed, recorded and deposited.

B.7. Registration of Collateral. Lender, at Borrower's sole expense, shall register or cause to be registered all Railroad Equipment in accordance with any and all applicable federal, state, and local or railroad industry registration requirements, including, without limitation, any registration requirement of the AAR and the STB and RGC, or any of their successor organizations.

B.8. Performance by Borrower. Borrower represents and warrants that (a) notwithstanding the assignment of the Documentary Security to Lender hereunder, Borrower will perform all of the covenants and conditions in the Documentary Security required to be complied with by it and (b) it has performed all obligations on its part to be performed on or prior to the date hereof and there has not occurred on or prior to the date hereof any default or event of default thereunder.

B.9. Performance by Lender. The assignment of the Documentary Security to Lender hereunder is made only as security, and, therefore, shall not subject Lender to, or transfer, or pass, or in any way affect or modify, the liability of Borrower thereunder, it being understood and agreed that notwithstanding such assignment, or any subsequent assignment, all obligations of Borrower to other parties thereunder shall be and remain enforceable by such parties, and their respective successors and assigns, against, and only against, Borrower. Nevertheless, Lender may, at any time and from time to time at its option, upon prior written notice to Borrower, perform any act which is undertaken by Borrower to be performed by Borrower under the Documentary Security or hereunder, but which Borrower shall fail to perform, and, in such case, may take any other action which Lender may deem necessary for the maintenance, preservation or protection of its security interest in the Collateral. All moneys advanced and all expenses (including reasonable legal fees) incurred by Lender in connection with such action together

with interest at the interest rate described above shall be repaid by Borrower to Lender upon demand, and shall be secured hereby as provided herein.

B.10. Protection of Security. Borrower shall not:

(1) permit any of the Collateral to be levied upon under legal process or to fall under any other lien or encumbrance of whatever nature arising as a result of claims against Borrower, except as otherwise permitted herein.

(2) except with the prior written consent of Lender, which shall not be unreasonably withheld or delayed, and upon the terms and conditions, specified in such consent, sell, assign (including by virtue of assignments by operation of law), mortgage, pledge or otherwise transfer or encumber any of the Collateral, except as contemplated herein, or take any action which would permit any party other than Lender to perfect any security interest in the Collateral, whether for purchase money or otherwise.

B.11. Amendments to Leases. Borrower hereby represents and warrants that it has not, and covenants that it shall not, as long as this Agreement shall remain in effect, except with the prior written consent of Lender, which consent shall not be unreasonably withheld or delayed, and upon the terms and conditions, if any, specified in such consent, enter into any agreement amending, supplementing or terminating any leases, if any, relating to the Railroad Equipment permitted by Lender.

B.12. Indemnity for Acts of Borrower. Borrower covenants and agrees with Lender that in any suit, proceeding or action brought or taken by Lender under the Documentary Security, or this Agreement, Borrower will save, indemnify and keep Lender harmless from and against all expense (including reasonable legal fees), loss or damage suffered by reason of any defense, setoff, counterclaim or recoupment whatsoever of any other party thereto, or their respective successors or assigns, arising out of a breach by Borrower of any obligation thereunder or arising out of any other indebtedness or liability at any time owing to any other party thereto, or their respective successors or assigns. Any and all such obligations of Borrower shall be and remain enforceable against and only against Borrower.

B.13. Taxes. Borrower will pay all taxes in connection with the issuance, sale or delivery of the Promissory Note and the execution and delivery of this Agreement and any other agreements and instrument contemplated hereby and any modification of the Promissory Note, this Agreement or such other agreements and instruments and will save Lender harmless, without limitation as to time, against any and all liabilities with respect to all such taxes. Borrower will also pay all other taxes, assessments or charges which may be levied on the Promissory Note or interest thereon, except any income tax imposed under the laws of the United States of America, or any state thereof, or of any foreign country, and will save Lender harmless, without respect to all such taxes, assessments or charges. The obligations of the Debtor under this Section B.13 shall survive the payment or prepayment of the Promissory Note and the termination of this Agreement.

B.14. Right to Inspect. Borrower shall at all reasonable times, at the request of Lender, cause the Collateral to be exhibited to the Lender or persons designated by the Lender for purposes of inspection. The Lender shall also have the right, but not the obligation, to inspect the Borrower's records with respect to the Collateral (and the right to make extracts from and to receive from the Borrower true

copies of such records relating to the Collateral except as otherwise provided herein) at such reasonable times as the Lender may request during the term of this Agreement.

B.15. Disclaimer by Lender. Lender makes no representations or warranties with respect to the Collateral or any part thereof; Lender shall not be chargeable with any obligations or liabilities of Borrower with respect thereto; and Lender shall have no liability or obligation arising out of any such claims, known or unknown, with respect to the Collateral.

C. DEFAULT

C.1 Defaults. The following events are defaults ("Events of Default" or "Defaults") hereunder:

(1) Borrower shall fail to pay an installment of the principal of or interest on the Promissory Note within ten (10) days of the date on which the same shall be due and payable, whether at the due date thereof, by acceleration, as part of a prepayment or otherwise.

(2) Borrower shall default in performance of its obligations under this Agreement or any other agreement between Borrower and Lender, and such default shall continue for thirty (30) days after written notice thereof to Borrower from Lender.

(3) Any representation or warranty on the part of Borrower made herein or in any report, certificate, financial or other statement furnished in connection with this Agreement or the transactions contemplated herein shall prove to have been false or misleading in any material respect when made. Provided however, that if Lender deems the false or misleading representation or warranty to have been unintentional, then Borrower shall have thirty (30) days from discovery by Lender and notification thereof to Borrower in which to cure such false or misleading representation or warranty.

(4) Borrower shall fail to pay, when due, any obligation for the payment of money incurred or assumed by Borrower (including without limitation obligations under capitalized leases, conditional sale agreements and the like) or shall fail to observe or perform any covenant or agreement in any document creating such obligation for the payment of money, if the effect of such failure is to cause any such obligations to become due prior to its stated maturity.

(5) Any claim, lien or charge shall be asserted against or levied or imposed upon the Collateral which is prior to or on a parity with the security interest granted hereunder, and such claim, lien or charge shall not be discharged or removed, or bonded against to the reasonable satisfaction of Lender.

(6) Borrower shall (i) file, or consent to the filing against it of a petition for relief under any bankruptcy or insolvency laws, (ii) make an assignment for the benefit of creditors, (iii) consent to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, or other official with similar powers over Borrower or a substantial part of its property, or (iv) take corporate action for the purpose of any of the foregoing.

(7) A court having jurisdiction over Borrower or its property shall enter a decree or order in respect of Borrower or such property in an involuntary case under any bankruptcy or

insolvency law, or shall appoint a receiver, liquidator, assignee, custodian, trustee, sequestrator, or official with similar powers over Borrower or any such property, or shall order the winding-up or liquidation of the affairs of Borrower, and such order or decree shall continue in effect for a period of sixty (60) consecutive days.

(8) The sale, lease, assignment or other transfer or disposition of substantially all of the common stock of Borrower or substantially all of the assets of Borrower without Lender's prior written consent, which consent shall not be unreasonable withheld or delayed.

C.2. Effect of a Default.

(1) Remedies. Upon the occurrence of any Default and at any time thereafter so long as the same shall be continuing, but subject always to any mandatory requirements of applicable law then in effect, Lender may, at its option, do any one or more or all of the following acts as Lender in its sole and complete discretion may then elect:

- (a) by written notice to Borrower declare the entire principal amount of the Promissory Note and any other notes ("Other Notes") executed by Borrower in favor of Lender and any other amounts payable hereunder or under any other agreement between Borrower and Lender to be due and payable, forthwith, whereupon the Promissory Note and the Other Notes shall become due and payable, both as to principal and interest without presentment, demand or protest of any kind, all of which are hereby expressly waived, anything contained herein or in the Promissory Note or the Other Notes to the contrary notwithstanding, and subject at all times to the recourse provisions of the Promissory Note or the Other Notes;
- (b) exercise all rights and remedies of Borrower under the Security Documentation and Borrower shall have no further rights thereunder until the security interest granted hereunder reverts to Borrower;
- (c) institute legal proceedings to foreclose upon and against the security interest granted herein to recover judgment for all amounts then due and owing as Indebtedness, and to collect the same out of any of the Collateral or from Borrower personally;
- (d) institute legal proceedings for the sale, under the judgment or decree of any court of competent jurisdiction, of any of the Collateral;

- (e) institute legal proceedings for the appointment of a receiver or receivers pending foreclosure hereunder or the sale of any of the Collateral under the order of a court of competent jurisdiction or under other legal process;
- (f) personally, or by agents or attorneys, enter into and upon any premises wherein the Collateral or any part thereof may then be located, and take possession of all or any part thereof or render it unusable, and, without being responsible for loss or damage, hold, store and keep idle, or operate, lease or otherwise use or permit the use of the same or any part thereof for such time and upon such terms as Lender may determine, in a commercially reasonable manner;
- (g) personally, or by agents or attorneys, enter into and upon any premises wherein the Collateral or any part thereof may then be located, and take possession of all or any part thereof with or without process of law and without being responsible for loss or damage and sell or dispose of all or any part of the same, free from any and all claims of Borrower or of any other party claiming by, through or under Borrower at law, in equity or otherwise, at one or more public or private sales, in such place or places, at such time or times and upon such terms as Lender may determine, in a commercially reasonable manner with or without any previous demand on or notice to Borrower or advertisement of any such sale or other disposal, and for the aforesaid purposes, all other notice of sale, advertisement and demand and any right or equity of redemption otherwise required by, or available to Borrower under, applicable law, are hereby waived by Borrower to the fullest extent permitted by applicable law; the power of sale hereunder shall not be exhausted by one or more sales, and Lender may from time to time adjourn any sale to be made hereunder;
- (h) demand, collect, and retain all rentals, earnings and all other sums due and to become due pursuant to subsections (f) or (g) of this Section C.2(1) from any party whomsoever, accounting only for net earnings arising after charging against all receipts from the use of or sale of the Collateral, all reasonable costs and expenses of, and damages or losses by reason of, such use or sale power;

- (i) if and to the extent the Default results from a breach by Borrower of any representation, warranty or covenant of Borrower contained herein, institute legal proceedings against Borrower to enforce performance of the applicable covenant of Borrower or to recover damages for the breach of any such representation, warranty or covenant; and
- (j) exercise any other right, power, privilege or remedy which may be available to a secured party under the Uniform Commercial Code, the ITA, the CTA or any other applicable law.

(2) Notice. If Lender must give prior notice to Borrower of any of the foregoing acts, Borrower hereby covenants and agrees that a notice sent to it in writing by certified mail, return receipt requested, at least ten (10) business days before the date of any such act (or such longer period as may be required by applicable law), at its address provided hereunder shall be deemed to be reasonable notice of such act and, specifically, reasonable notification of the time and place of any public sale hereunder and the time after which any private sale or other intended disposition is to be made hereunder.

(3) Application of Proceeds. The proceeds from the sale of the Collateral pursuant to any of the provisions of this Section C.2. shall be applied by Lender as follows:

- (a) First, to the payment of costs and expenses of foreclosure or suit, if any, and of such sale, and of all proper expenses, liability and advances, including legal expenses and reasonable attorneys' fees, incurred or made hereunder by Lender, and of all taxes, assessments or liens superior to the lien of these presents, except any taxes, assessments or other superior lien subject to which said sale may have been made;
- (b) Second, to the payment to Lender of the amounts of principal and accrued interest unpaid on the Promissory Note or other Notes; and in case such proceeds shall be insufficient to pay in full the amount unpaid on the Promissory Note and Other Notes, then ratably according to the aggregate of such principal and the accrued and unpaid interest, if any, with application on the Promissory Note or Other Notes to be made, first, to the unpaid interest thereof, and thereafter to the unpaid principal thereof; and
- (c) Third, to the payment of the surplus, if any, to Borrower, its successors and assigns, or to whosoever may be lawfully entitled to receive the same.

C.3. Waiver by Borrower. To the fullest extent that it may lawfully so agree, Borrower shall not at any time insist upon, claim, plead, or take any benefit or advantage of, any appraisal, valuation, stay, extension, moratorium, redemption or any similar law now or hereafter in force in order to prevent, delay or hinder the enforcement of this Agreement or the absolute sale of any part or all of the Collateral or the possession thereof by any purchaser at any sale pursuant to Section C.2. above; and Borrower, for itself and all who may claim through it, as far as it or they now or hereafter lawfully may so do, hereby waives the benefit of all such laws and all right to have the Collateral marshalled upon any foreclosure hereof, and agrees that any court having jurisdiction to foreclose under this Agreement may order the sale of the Collateral as an entirety.

C.4. Right to Purchase Collateral. So long as Lender has provided Borrower with the Notice described in Section C.2. (2), at any sale pursuant to Section C.2. hereof, Lender or its agent may, to the extent permitted by applicable law, bid for and, if Lender is the highest bidder, purchase the Collateral offered for sale, may use any claim for Indebtedness payable to it as a credit against the purchase price and, upon compliance in full with the terms of such sale, may hold, retain and dispose of such property without further accountability therefor to Borrower or any other party.

C.5. Cumulative Rights. Each right, power and remedy herein specifically granted to Lender or otherwise available to it shall be cumulative, and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or otherwise; and each right, power and remedy, whether specifically granted herein or otherwise existing, may be exercised, at any time and from time to time, as often and in such order as may be deemed expedient by Lender in its sole and complete discretion; and the exercise or commencement of exercise of any right, power or remedy shall not be construed as a waiver of the right to exercise, at the same time or thereafter, the same or any other right, power or remedy; provided, however, that nothing in this Agreement shall be construed as granting Lender the right to recover more than the amount of the Indebtedness and its expenses as provided hereunder and such other amounts as may be recoverable under applicable laws. No delay or omission by Lender in exercising any such right or power, or in pursuing any such remedy, shall impair any such right, power or remedy or be construed to be a waiver of any Default on the part of Borrower or an acquiescence therein. No waiver by Lender of any breach or Default of or by Borrower under this Agreement shall be deemed to be a waiver of any other or similar, previous or subsequent breach or Default.

C.6. Rights Under Security Documentation. Notwithstanding any of the provisions of this Agreement to the contrary, neither Borrower nor Lender shall, in the absence of a default under the Security Documentation, take any action contrary to the rights of Borrower under the Security Documentation except in accordance with the provisions thereof.

D. MISCELLANEOUS

D.1. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrower, Lender and their respective successors and assigns, provided that Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of Lender.

D.2. Governing Law, Amendments and Counterparts. The terms of this Agreement and all rights obligations of the parties hereto shall be governed by the laws of the State of Illinois, without regard to its conflicts of law doctrine. Such terms, rights and obligations may not be changed orally, but

may be changed only by an agreement in writing signed by the party against whom enforcement of such change is sought. This Agreement may be executed in any number of counterparts and by the parties hereto on separate counterparts, but all of such counterparts shall together constitute a single instrument.

D.3 Fees and Expenses. Borrower has paid or agrees to pay Lender a fee agreed to by Borrower and Lender to cover Lender's reasonable out-of-pocket expenses relating to the negotiation, execution, delivery and preparation of this Agreement, the Notes, and any amendments hereto or thereto, and separately agrees to pay any appraisal fee incurred for the inspection of the Railroad Equipment, and agrees to pay such other fees and expenses as set forth herein. Lender shall provide Borrower with an itemization for the appraisal fee to be paid by Borrower under this section D.3.

D.4 Notices. All notices and other communications provided for hereunder shall be in writing (including telegraphic communication) and mailed or telegraphed or delivered:

if to Borrower, at its address at:

Escanaba & Lake Superior Railroad Company
One Larkin Plaza
Wells, MI 49894
Attention: Mr. Leon K. Frischman, Vice President
Fax: (906) 786-8012

with a copy to:

Felhaber, Larson, Fenlon & Vogt
2100 Minnesota World Trade Center
30 East Seventh Street
Saint Paul, MN 55101-4901
Attention: Terry Cullen, Esq.
Fax: (612) 222-8905

and if to Lender, at its address at:

Deutsche Financial Services Corporation
2333 Waukegan Road
Deerfield, IL 60015
Attention: Legal Department-With copies
to Mr. Patrick Mazzanti
Fax: (708) 948-5058

All such notices shall be deemed given upon personal delivery or facsimile transmission to an officer of Borrower or Lender, as the case may be, or forty-eight hours after deposit into the United States mail, certified mail, return receipt requested, postage prepaid, or twenty-four (24) hours after submitting to a national, overnight delivery service, prepaid, and, in each case, addressed to the address indicated herein for such party or to such other address as such party may designate in writing pursuant hereto.

D.5 Survival. All warranties, representations, agreements and covenants made by Borrower herein or in any certificate or other instrument delivered by Borrower shall be considered to have been relied upon by Lender hereto and shall survive the consummation of the transactions contemplated hereby regardless of any investigation made by Lender or on behalf of Lender. All statements in any such certificate or other instrument shall constitute warranties and representations by Borrower to the same effect as if set forth herein.

D.6 Headings. The headings of the sections of this Agreement are inserted for purposes of convenience only and shall not be construed to affect the meaning or construction of any of the

provisions hereof. They may alternatively be called "Sections" or "Articles", but shall mean one and the same thing.

D.7 Entire Agreement. This Agreement, together with the Promissory Note, is intended by the parties as a final expression of their agreement and is intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement, together with the Promissory Note, supersedes all prior agreements and understanding between the parties with respect to such subject matter.

D.8 Attorney Fees. In any action or proceeding brought to enforce any provision of this Agreement or the Notes, or where any provision hereof or thereof is validly asserted as a defense, the successful party shall be entitled to recover reasonable attorneys' and disbursements fees in addition to any other available remedy.

D.9 Severability. In the event that any one or more of the provisions contained herein, or of the Promissory Note or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired or affected, it being intended that all of Lender's rights and privileges shall be enforceable to the fullest extent permitted by law.

D.10 Reproduction of Documents. This Agreement and all documents relating hereto including, without limitation, (a) consents, waivers and modifications which may hereafter be executed, (b) documents received on or as of the Loan Closing, and (c) financial statements, certificates and other information previously or hereafter furnished to any party hereto, may be reproduced by such party by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and such party may destroy any original document so reproduced, all at the cost of such party. The parties hereto agree and stipulate that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

D.11 Counterparts. This Agreement may be executed simultaneously in two or more

counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Loan and Security Agreement as of the date first written above.

**ESCANABA & LAKE SUPERIOR
RAILROAD COMPANY,
BORROWER**

By: John Larkin
Title: President

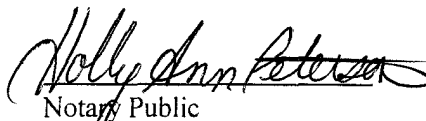
**DEUTSCHE FINANCIAL SERVICES
CORPORATION, LENDER**

By: [Signature]
Title: Assistant Vice President

STATE OF Michigan)
)
COUNTY OF Delta)

SS.

On this 1st day of July, 1998, before me personally appeared
John Larkin to me personally known, who being by me duly sworn, says that he is the
President of Escanaba & Lake Superior Railroad Company, that said instrument was signed on
behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of
the foregoing instrument was the free act and deed of said corporation.


Notary Public

HOLLY ANN PETERSON
NOTARY PUBLIC - DELTA COUNTY, MI
MY COMMISSION EXP 12/14/2001

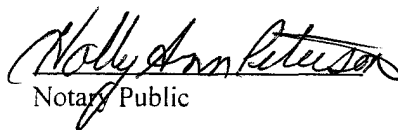
(SEAL)

My commission expires:

STATE OF Michigan)
)
COUNTY OF Delta)

SS.

On this 1st day of July 1998, before me personally appeared
Patrick J. Mazzanti to me personally known, who being by me duly sworn, says that he is the
AVP of DEUTSCHE FINANCIAL SERVICES CORPORATION, that said instrument was
signed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the
execution of the foregoing instrument was the free act and deed of said corporation.


Notary Public

HOLLY ANN PETERSON
NOTARY PUBLIC - DELTA COUNTY, MI
MY COMMISSION EXP 12/14/2001

(SEAL)

elsisgxx.doc

PROMISSORY NOTE

\$ _____ Wells Michigan _____
(Principal) (City) (State) (Date)

FOR VALUE RECEIVED, the undersigned Maker (if more than one, jointly and severally) promises to pay to the order of _____, its successors or assigns, (hereinafter referred to as Holder) at 2333

Waukegan Road, Deerfield, Illinois, 60015 or such
(Address) (City) (State) (Zip)

other place the Holder hereof may, from time to time appoint, the principal sum of _____

(\$ _____) Dollars, together with an interest charge of _____

(\$ _____) Dollars, which has been precomputed at an annual rate

of _____% on the unpaid balance. Principal and interest shall be payable in Eighty-Four (84)

consecutive equal monthly installments of _____

(\$ _____) Dollars beginning the _____ day of _____

_____, 19____, and continuing each _____ thereafter, until principal and interest are fully paid. Interest shall be

calculated on the basis of the actual number of days elapsed over a year of 360 days.

Notwithstanding anything herein, or construed to the contrary, the Maker and Holder hereof agree that it shall not be deemed, construed or intended that this Note shall bear interest at a rate higher than the highest contract rate allowed by law in the state of Maker, or by federal law, whichever is greater.

All payments shall be in U.S. Dollars and shall be applied first to interest, then to principal.

If Maker prepays this Note at any time, Maker shall pay Holder a Lost Investment Cost as herein defined. "Lost Investment Cost", if any, shall mean, if greater than zero, the present value of the remaining scheduled payments from the date of prepayment to the scheduled date of the last payment due under the Note discounted at the Remaining Like Term Treasuries Rate minus the present value of the remaining scheduled payments at the Original Like Term Treasuries Rate. "Original Like Term Treasuries Rate" shall be the yield on U.S. Treasuries with a maturity date equal to that of the term of the Note as reported on the first business day of the week in which the Note was funded. "Remaining Like Term Treasuries Rate" shall be the yield on U.S. Treasuries with a maturity date equal to that of the term of the Note as reported on the first business day of the week in which the prepayment is to occur. The yields on U.S. Treasuries shall be as reported by the Federal Reserve Board in Statistical Release H.15 "Selected Interest Rates" (or any replacement report by the Federal Reserve Board if this report is discontinued).

In addition to payment of the Lost Investment Cost, Maker shall also pay to Holder, in the event of prepayment, a fee in the amount of one half of one per-cent (.5%) of the then outstanding principal balance of this Note, during the first three years of this Note, with such period measured from the date funds are advanced hereunder by Holder to or at the direction of Maker.

This Note is secured by a Loan and Security Agreement, of even date herewith by and between Holder and Maker hereof.

In the event that any collateral which is the subject matter of the Loan and Security Agreement referenced herein, is sold, leased or otherwise disposed of by Maker, in violation of said Loan and Security Agreement, then, in such event, the Holder hereof may declare the then unpaid and outstanding principal balance, together with any interest unpaid thereon, immediately due and payable as hereinafter provided.

In the event that any payment of principal and/or interest is not paid when due, then the undersigned Maker agrees to pay, from the date of default, interest on the amount of the payment at the highest contract rate allowed by law in the state of Maker, or federal law, whichever is greater, but in any event, not to exceed the Prime Rate plus three (3%) percent per month, until paid in full. In the event that any payment of principal and/or interest is not paid when due, or if the Maker violates, breaches, or defaults in any of the terms, conditions or provisions hereof, or of the Loan and Security Agreement referenced herein, then the Holder hereof may declare the then outstanding balance, together with any interest unpaid thereon, immediately due and payable, and the undersigned Maker agrees to pay interest thereon, from the date of default, at a rate equal to the highest contract rate allowed by law in the state of Maker, or federal law, whichever is greater, but in any event, not to exceed the Prime Rate plus three (3%) percent per month. "Prime Rate", as used herein, shall be the Prime Rate, as published in the Wall Street Journal, on the first day of the month of this Note, and on each successive first day of the month thereafter.

The undersigned Maker agrees to pay all expenses, including reasonable attorneys' fees, incurred in collecting any unpaid amount(s) due hereunder, by suit or otherwise, whether or not such amount(s) be accelerated.

The Makers, endorsers, guarantors and all parties to this Note hereby waive presentment for payment, demand, protest, notice of protest and notice of dishonor to each of them individually, and jointly to any or all of them. The Holder may extend the time of payment of this Note, postpone the enforcement hereof, grant any other indulgence and add or release any collateral or any party primarily or secondarily liable heron without affecting or diminishing the Holder's rights or recourse, against the Makers, endorsers, guarantors and all parties to this Note, which right is hereby reserved to the Holder hereof.

Escanaba & Lake Superior Railroad Company
(Maker)

By: _____

Title: _____

(Witness)

EXHIBIT "A"**Page 2 of 2**

This exhibit is attached to and becomes a part of a Loan and Security Agreement by and between Deutsche Financial Services Corporation as Lender and Escanaba & Lake Superior Railroad Company as Borrower.

Quantity	Description	Road Number	
Five (5)	70 - Ton Bulkhead Flatcars	ELS	5100-5104
One (1)	70 - Ton Bulkhead Flatcar	ELS	5105
Two (2)	70 - Ton Bulkhead Flatcars	ELS	5106-5107
Six (6)	70 - Ton Bulkhead Flatcars	ELS	5108-5113

One (1)	SD-9 Locomotive, 1750 HP	ELS	1220
One (1)	SD-9 Locomotive, 1750 HP	ELS	1221
One (1)	SD-9 Locomotive, 1750 HP	ELS	1222
One (1)	SD-9 Locomotive, 1750 HP	ELS	1223
One (1)	SD-9 Locomotive, 1750 HP	ELS	1224
One (1)	EMD GP-38 Locomotive, 2000 HP	ELS	400
One (1)	EMD GP-38 Locomotive, 2000 HP	ELS	402
One (1)	SW-8 Switcher, 800 HP	ELS	1200
One (1)	SW-8 Switcher, 800 HP	ELS	1201

LENDER:

Deutsche Financial Services CorporationBy Title Assistant Vice President

BORROWER:

Escanaba & Lake Superior Railroad CompanyBy Title President

EXHIBIT "A"**Page 1 of 2**

This exhibit is attached to and becomes a part of a Loan and Security Agreement by and between Deutsche Financial Services Corporation as Lender and Escanaba & Lake Superior Railroad Company as Borrower.

Quantity	Description	Road Number	
Thirty-Six (36)	100 - Ton Bulkhead Flatcars (Modified)	ELS	5000-5035
One (1)	100 - Ton Bulkhead Flatcar	ELS	61704
One (1)	100 - Ton Bulkhead Flatcar	ELS	61711
One (1)	100 - Ton Bulkhead Flatcar	ELS	61716
One (1)	100 - Ton Bulkhead Flatcar	ELS	61726
One (1)	100 - Ton Bulkhead Flatcar	ELS	61729
Three (3)	100 - Ton Bulkhead Flatcars	ELS	61732-61734
One (1)	100 - Ton Bulkhead Flatcar	ELS	61741
Two (2)	100 - Ton Bulkhead Flatcars	ELS	61748-61749
One (1)	100 - Ton Bulkhead Flatcar	ELS	979024

Twelve (12)	70 - Ton Boxcars	ELS	101600-101611
Thirteen (13)	70 - Ton Boxcars	ELS	101613-101625
One (1)	70 - Ton Boxcar	ELS	101627
Four (4)	70 - Ton Boxcars	ELS	101629-101632
Four (4)	70 - Ton Boxcars	ELS	101634-101637
Twenty-Five (25)	70 - Ton Boxcars	ELS	101639-101663
Sixty-Seven (67)	70 - Ton Boxcars	ELS	101666-101732
Two (2)	70 - Ton Boxcars	ELS	101734-101735
Thirteen (13)	70 - Ton Boxcars	ELS	101737-101749
Twenty-Nine (29)	70 - Ton Boxcars	ELS	101751-101779
Twelve (12)	70 - Ton Boxcars	ELS	101780-101791
Twenty-Three (23)	70 - Ton Boxcars	ELS	101793-101815
Sixteen (16)	70 - Ton Boxcars	ELS	101817-101832
Seven (7)	70 - Ton Boxcars	ELS	101834-101840
Six (6)	70 - Ton Boxcars	ELS	101842-101847
Sixteen (16)	70 - Ton Boxcars	ELS	101849-101864
Twenty-Two (22)	70 - Ton Boxcars	ELS	101866-101887
Eleven (11)	70 - Ton Boxcars	ELS	101889-101899


Borrower initial



Lender initial

Exhibit "C"

CERTIFICATE

Pursuant to that certain Loan and Security Agreement dated as of July _____, 1998 (the "Agreement") between Escanaba & Lake Superior Railroad Company (the "Borrower") and Deutsche Financial Services Corporation ("Lender"), the undersigned hereby certifies to Lender that the representations and warranties of Borrower contained in the Agreement and of each party in any documents or certificates delivered pursuant to the Agreement shall be and are true and correct on and as of the Loan Closing (as defined in the Agreement) with the same effect as though made on and as of the Loan Closing.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the _____ day of July, 1998.

**Escanaba & Lake Superior Railroad
Company**

By: _____

Title: _____

Exhibit "D"

QUARTERLY COVENANT COMPLIANCE CERTIFICATE

Escanaba & Lake Superior Railroad Company (the "Borrower") HEREBY CERTIFIES THAT this Certificate is furnished pursuant to Section A.5.(17) of the Loan and Security Agreement dated as of July __, 1998, by and between the Borrower and Deutsche Financial Services Corporation, (the "Loan Agreement"). Unless otherwise defined herein, the terms used in the Certificate have the meaning assigned to them in the Loan Agreement.

As required by Section A.5.(17) of the Loan Agreement, consolidated financial statements of the Borrower for the year ending _____, 19____ (the "Financial Statements"), prepared in accordance with generally accepted accounting principles consistently applied, accompany this Certificate. The Financial Statements fairly presented the consolidated financial position of the Borrower as at the date thereof and the results of operations of the Borrower for the period covered.

The activities of the Borrower during the period covered by that Financial Statements have been reviewed by the Chief Financial Officer or by employees or agents under his immediate supervision.

The Borrower is in compliance with the Loan Agreement.

WITNESS my hand this _____ day of _____, 19____.

Escanaba & Lake Superior Railroad Company

By: _____

Title: _____

EXHIBIT "E"

ANNUAL COVENANT COMPLIANCE CERTIFICATE

Escanaba & Lake Superior Railroad Company (the "Borrower") HEREBY CERTIFIES THAT this Certificate is furnished pursuant to Section A.5.(17) of the Loan and Security Agreement dated as of _____ by and between the Borrower and Deutsche Financial Services Corporation, (the "Loan Agreement"). Unless otherwise defined herein, the terms used in the Report have the meaning assigned to them in the Loan Agreement.

As required by Section A.5.(17) of the Loan Agreement, consolidated financial statements of the Borrower for the year ending _____, 19____ (the "Financial Statements"), prepared in accordance with generally accepted accounting principles consistently applied, accompany this Certificate. The Financial Statements fairly present the consolidated financial position of the Borrower as at the date thereof and the results of operations of the Borrower for the period covered.

The Borrower hereby certifies it is in compliance with the financial covenants contained in the Loan Agreement as of the date hereof, the activities of the Borrower during the period covered by the Financial Statements have been reviewed by the undersigned who acts as outside independent auditors to the Borrower.

The Borrower is in compliance with the Loan Agreement.

WITNESS my hand this _____ day of _____, 19_____.

[NAME OF AUDITORS]

By: _____

Title: _____